
Manitoba 

**Annual Report
1985 - 86**

**Manitoba
Development
Corporation**

Error Correction

The first paragraph of page 6
should read -

The Manitoba Development Corporation,
as I have reported over the last number
of years since the financing activities of
this Corporation were suspended in 1977,
has provided loan commitments and
chartered bank guarantees under Part I
of the Development Corporation Act for
Flyer Industries Limited solely.

Manitoba 

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1985 - 86**

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Development
Corporation**

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MANITOBA DEVELOPMENT CORPORATION

Honourable Victor Schroeder,
Minister Responsible for the Administration of
The Development Corporation Act.
Room 358, Legislative Building
Winnipeg, Manitoba
R3C 0V8

In accordance with the provisions of Part I and Part II of The Development Corporation Act, enclosed is the report on the operations and activities of the Manitoba Development Corporation during the fiscal year ended March 31, 1986.

Respectfully submitted on
behalf of the Board of Directors

H.J. Jones,
Chairman and General Manager.

Report of the Chairman and General Manager

The Manitoba Development Corporation, as I have reported over the last number of years since the financing activities of this Corporation were suspended in 1977, has provided loan commitments and chartered bank guarantees for Flyer Industries Limited solely.

As I reported last year, the pursuit of various options and opportunities with respect to Flyer Industries Limited culminated in the Agreement between M.D.C. and B.V. Carrosseriefabrieken den Oudsten en Zonen on April 10th, 1986 for the divestiture of Flyer Industries Limited.

I am pleased to report that the divestiture was successfully completed on July 15th, 1986 and the Company was renamed New Flyer Industries Limited.

The Share Purchase Agreement between this Corporation and B.V. Carrosseriefabrieken den Oudsten en Zonen has provisions for M.D.C.'s ongoing involvement by way of chartered bank guarantees, guarantees for bonding commitments, loans for technology transfer and training. M.D.C. and the Province are obligated to attend to previous warranty commitments of Flyer Industries Limited.

Under Part I of the Development Corporation Act as at March 31st, 1986, the existing Part I Loan Portfolio was being reduced in an orderly manner with a balance as at March 31st, 1986 of \$7,980,085, as compared to \$8,649,926 at the previous year-end.

Part II activities are initiated and directed by Orders-in-Council and the Corporation has taken on an Agency role in monitoring and administering various programmes initially delivered by a variety of Government Departments.

Among the Government activities continued by the Corporation during the year, under review were:

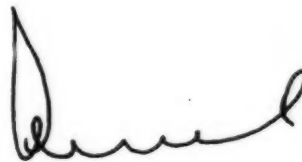
1. Administration and monitoring of the Destination Manitoba Programme which provided loan assistance to capital projects related to development and expansion of rural tourist facilities.

2. The administration and monitoring of Development Agreements and other forms of financial assistance provided under the Manitoba Jobs Fund Programme.
3. The monitoring and administration of the loan portfolio of the Manitoba Interest Rate Relief Programme for Small Business.

Other agency agreements reached with Government Departments subsequent to year-end include, a role in the loan administration of the New Tourism Agreement, monitoring of loans approved under the Employment Co-Operative Programme under the Department of Co-Operative Development, and responsibility for the administration of loans approved under the Manufacturing Adaptation Programme under the Department of Business Development and Tourism.

I should note that the March 31, 1986 financial statements have been qualified by the Provincial Auditor to the extent that this Corporation has not been recovering costs for administering a certain programme under Part II of the Development Corporation Act. Discussions have been undertaken with a view to alleviating this particular issue.

I would like to extend my appreciation to the Directors of the Manitoba Development Corporation whose guidance and counsel were invaluable to me, particularly with respect to the divestiture of Flyer Industries Limited and my thanks as well go to the small but active staff of the Corporation, in undertaking an important role in the provision of financial assistance to a variety of clients.



Hugh Jones,
Chairman and General Manager.

Directors and Officers at March 31, 1986

Board of Directors

Hugh Jones, Chairman and General Manager
Angus Bramadat (Appointed May 8, 1985)
Oscar Carbonell
Joan Cox
Walter Kramble
Ralph Nault
Floyd Williston

Officers

Hugh Jones, Chairman and General Manager
Greg M. Goodwin, Assistant General Manager
and Secretary
Alec Y. Musgrove, Treasurer



Manitoba

Manitoba Development Corporation

Report of The Provincial Auditor's Office

We have examined the financial statements, being Exhibits A to C and Schedules 1 to 5, of the Manitoba Development Corporation for the fiscal year ended March 31, 1986. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

As set out in note 8 to the financial statements, the Corporation does not recover administrative costs for its participation in the Jobs Fund Loan Program and from the assistance provided to corporations. Part II of The Development Corporation Act and Section 7 of Revised Regulation D60-R1 provide that the Corporation shall charge a management fee which shall be equivalent to its estimated expenses of acting on behalf of the Government of Manitoba. The Corporation has not charged a management fee for the operation of the Jobs Fund Loan Program or for assistance provided to corporations under Part II of The Development Corporation Act. The effect of this is to understate its accounts receivable and the deficit by an estimated \$200,000 (1985 — \$100,000) and to understate recoveries from the Province of Manitoba and to overstate the net loss for the year by an estimated \$100,000 (1985 — \$100,000).

In our opinion, these financial statements, except for the exclusion of the estimated management fee as described in the preceding paragraph, present fairly the financial position of the Manitoba Development Corporation as at March 31, 1986 and the results of its operations for the year then ended in accordance with the accounting policies stated in note 1 to the financial statements applied, after giving effect to the change in accounting for common administrative expenses as disclosed in note 2 to the financial statements, on a basis consistent with that of the preceding year.

September 30, 1986,
Winnipeg, Manitoba

F.H. Jackson, C.A.,
Provincial Auditor.

Exhibit A**Manitoba Development Corporation****Balance Sheet**

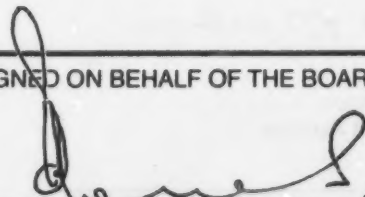
As at March 31, 1986

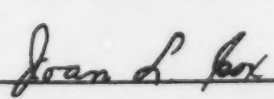
(with 1985 Figures for Comparison)

ASSETS		
	1986	1985
Part I		
Cash in bank	\$ 57,258	\$ 205,286
Short-term deposits with the Province of Manitoba	9,091,854	11,015,865
Accounts receivable and accruals	252,992	313,476
Recoverable from the Province of Manitoba (note 3)	234,412	275,593
Due from Part II	54,580	54,480
Loans receivable, less allowance for doubtful accounts, Schedule 3	7,980,085	8,649,926
Equity investments and related loan receivable, Schedules 1 and 2, less allowance for losses, Schedule 3	—	—
Properties held for resale, at the lower of cost or estimated realizable value	126,578	161,837
Office furniture at cost, less accumulated depreciation \$52,576 (1985 — \$53,035)	7,077	1,373
	<u>\$ 17,804,836</u>	<u>\$ 20,677,836</u>

ASSETS		
Part II		
Cash in bank	\$ 28,316	\$ 116,962
Loans receivable:		
General:		
Principal	2,740,227	2,194,870
Interest	374,575	268,130
Jobs Fund Loan Program:		
Principal and interest	14,083,849	11,840,000
Equity investments and related loan receivable, Schedule 4	12,951,509	13,114,172
	<u>\$ 30,178,476</u>	<u>\$ 27,534,134</u>

SIGNED ON BEHALF OF THE BOARD



Director

Director

LIABILITIES		
	1986	1985
Part I		
Accounts payable — trade	\$ 80,797	\$ 50,727
— Province of Manitoba	11,665	12,481
	<u>92,462</u>	<u>63,208</u>
Amount due to the Communities Economic Development Fund	392,644	361,627
Allowance for loss on investment in Flyer Industries Limited, Schedule 3 (note 1(c))	23,961,074	13,807,789
	<u>24,446,180</u>	<u>14,232,624</u>
SHAREHOLDER'S EQUITY		
Capital Stock:		
Authorized:		
500,000 shares, par value \$100 each	50,000,000	50,000,000
Issued and fully paid — 500,000 shares	56,641,344	43,554,788
Less: deficit, Exhibit C	(6,641,344)	6,445,212
	<u>\$ 17,804,836</u>	<u>\$ 20,677,836</u>
LIABILITIES		
Part II		
Trust liability re Destination Manitoba	\$ 25,000	\$ 116,544
Interest payable	657,946	223,203
Due to Part I	54,580	54,480
Advances from the Province of Manitoba:		
General	15,683,718	15,299,907
Jobs Fund Loan Program	13,757,232	11,840,000
	<u>29,440,950</u>	<u>27,139,907</u>
	<u>\$ 30,178,476</u>	<u>\$ 27,534,134</u>

Exhibit B**Manitoba Development Corporation****Statement of Revenue and Expenditure**

For the Year Ended March 31, 1986

(with 1985 Figures for Comparison)

	1986	1985
Revenue:		
Interest and fees:		
Loans and guarantees — Part I	\$ 1,353,114	\$ 1,379,023
— Part II	736,057	863,398
Term deposits	1,107,257	1,141,419
	<u>3,196,428</u>	<u>3,383,840</u>
Rental income — net	6,107	7,938
Recoveries — Province of Manitoba (note 4)	141,115	325,743
Property tax recovery	—	18,028
	<u>3,343,650</u>	<u>3,735,549</u>
Expenditure:		
Interest — Province of Manitoba — Part II	736,057	863,398
Salaries and benefits	254,105	205,204
Other expenses (note 7(b))	362,210	657,621
Reimbursement to Communities Economic Development Fund for share of common administrative expenses (note 2)	80,000	90,000
	<u>1,432,372</u>	<u>1,816,223</u>
Excess of revenue over expenditure before the following:	1,911,278	1,919,326
Less: Provision for doubtful accounts and losses on investments, Schedule 3	14,386,133	18,709,555
Net loss for the year	12,474,855	16,790,229
Add: Subsidy to the Communities Economic Development Fund (note 7(a))	611,701	725,555
Transfer to deficit, Exhibit C	<u>\$ 13,086,556</u>	<u>\$ 17,515,784</u>

Exhibit C**Manitoba Development Corporation****Statement of Deficit**

For the Year Ended March 31, 1986

(with 1985 Figures for Comparison)

	1986	1985
Balance — beginning of year	\$ 43,554,788	\$ 26,039,004
Transfer from revenue and expenditure, Exhibit B	13,086,556	17,515,784
Balance — end of year, Exhibit A	<u>\$ 56,641,344</u>	<u>\$ 43,554,788</u>

Schedule 1**Manitoba Development Corporation****Part I Equity Investments and Related Loan Receivable**

As at March 31, 1986

	Shares Issued and Outstanding	Shares owned by the Manitoba Development Corporation	Equity Investments	Loan Receivable
William Clare (Manitoba) Limited				
Equity investment-nominal value:				
Common shares	100	100	\$ 1	
Flyer Industries Limited				
Equity investment-at cost:				
Preferred shares	10,000,000	9,682,000	9,682,000	
Subordinate preferred shares	8,000,000	8,000,000	8,000,000	
Common shares	552,883	552,563	16,750,106	
Loan receivable				\$ 7,280,874
			<u>\$34,432,107</u>	<u>\$ 7,280,874</u>
Summary:				
Equity investments				\$34,432,107
Loan receivable				7,280,874
				<u>41,712,981</u>
Less: Allowance for losses, Schedule 3				41,712,981
Equity investments and related loan receivable — net				<u>\$ —</u>

Schedule 2**Manitoba Development Corporation****Part I Account in Receivership**

As at March 31, 1986

	1986	1985
Saunders Aircraft Corporation Limited	\$100	\$100
Less: Allowance for estimated losses, Schedule 3	100	100
Account in receivership — net	\$ —	\$ —

Schedule 3**Manitoba Development Corporation****Part I Allowance for Doubtful Accounts
and Losses on Investments**

For the Year Ended March 31, 1986

	Balance March 31, 1985	Add: Provision	Balance March 31, 1986
Loans receivable	\$ 50,000	\$ (50,000)	\$ —
Equity investments and related loan receivable, Schedule 1 (note 1(c))	37,430,134	4,282,848	41,712,982
Additional loss on investment in Flyer Industries Limited, Exhibit A (note 1(c))	13,807,789	10,153,285	23,961,074
Account in receivership, Schedule 2	100	—	100
	<u>\$51,288,023</u>	<u>\$14,386,133</u>	<u>\$65,674,156</u>

Schedule 4**Manitoba Development Corporation****Part II Equity Investments and Related Loan Receivable**

As at March 31, 1986

	Shares Issued and Outstanding	Shares owned by the Manitoba Development Corporation	Equity Investments	Loan Receivable
A.E. McKenzie Co. Ltd.				
Equity investment — at cost:				
Preferred shares	12,154,000	12,154,000	\$12,154,000	
Common shares	1,145	—	—	
Loan receivable:				
Principal				\$ 789,491
Interest				8,018
			\$12,154,000	\$ 797,509
Summary:				
Equity investments				\$12,154,000
Loan receivable				797,509
Equity investments and related loan receivable, Exhibit A				\$12,951,509

Schedule 5**Manitoba Development Corporation****Report of Assistance Granted or to be Granted**For the Year Ended March 31, 1986

Assistance Approved Under Part I of The Development Corporation Act**Flyer Industries Limited**

Loan — interest 10 1/2% — 5 month term	\$2,000,000
Indemnity — fee nil — no term	1,000,000

Assistance Approved Under Part II of The Development Corporation Act**General:****Tantalum Mining Corporation of Canada Limited**

Loan — interest rate at chartered bank prime rate — repayable on demand	310,000
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Jobs Fund Loan Program:**Arctic Co-operatives Limited (note 9)**

Loan — interest nil — forgivable	225,000
Loan — interest nil — 5 year term	225,000

Canada Wire and Cable Ltd. (note 9)

Loan — interest nil — forgivable	230,625
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Canadian Occidental Petroleum Ltd. (note 9)

Loan — interest nil — forgivable	500,000
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Rock Lake Oil Seeds (1985) Holding Company Ltd.

Guarantee — fee 2% per annum — 5 year term	2,250,000
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Sherrgold Inc.

Loan — interest 9.75% — 5 year term	2,000,000
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Simon-Day Ltd.

Loan — interest 12% — 5 year term	1,000,000
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Vicon Ltd. (note 9)

Loan — interest nil — forgivable	1,000,000
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Manitoba Development Corporation
Notes to the Financial Statements
for the year ended March 31, 1986

1. Significant Accounting Policies:

- (a) The Corporation loans and provides loan guarantees under Part I and Part II of The Development Corporation Act. The activities under Part I and Part II are accounted for separately. Part I activities are undertaken at the initiative of the Corporation, while Part II activities are at the direction of the Province of Manitoba (note 8). Part I activities are subject to the limitations outlined in note 5.

Losses under Part I are accounted for by the Corporation but losses under Part II are the responsibility of the Province.

- (b) An accrual basis of accounting is being followed except for the accounting for pension costs as set out in (e) below.
- (c) The Corporation's financial statements do not include the accounts of its two subsidiary companies on a consolidated basis.

The Corporation's investment in Flyer Industries Limited is recorded at cost less an allowance for loss. The Corporation provides for losses of Flyer Industries Limited based on the accumulated deficit as reported in Flyer Industries Limited's audited financial statements at the previous December 31. The Flyer Industries Limited accumulated deficit is first applied as an allowance for loss on the Corporation's investment in Flyer Industries Limited. The remaining amount of the accumulated deficit is recorded as a liability of the Corporation.

The Corporation's investment in William Clare (Manitoba) Limited is shown at a nominal value of \$1.

- (d) The allowance for doubtful accounts has been determined on an individual account basis.
- (e) The employees of the Corporation are not members of the Civil Service of the Province but they contribute to, and are pensionable under the Civil Service Superannuation Fund. In accordance with the provision of the Manitoba Civil Service Superannuation Act, the Corporation contributes 50% of the pensions paid to retired employees. Such payments are charged to operations as incurred and provision is not made in the accounts to fund current or past service obligations to the Superannuation Fund. On the basis of an actuarial report, the unfunded liability for the Corporation's employees amounted to \$246,073 as at December 31, 1985, (\$209,602 as at December 31, 1984).
- (f) The Manitoba Development Corporation is jointly administered with the Communities Economic Development Fund (CEDF). Common administrative expenses are initially paid by CEDF, except for rent and utilities costs which are paid by the Corporation. At the year end, common administrative expenses are reviewed and allocated between CEDF and the Corporation on a proportionate basis as determined by officials of CEDF and the Corporation. The difference between the administrative expenses paid by the Corporation and the prorated administrative expenses are reflected as either a recovery of administrative expenses or as a reimbursement to CEDF for the Corporation's share of common administrative expenses.
- (g) Office furniture is depreciated at 10% on a straight line basis.

2 Change in Accounting Policy:

The accounting policy regarding common administrative expenses, note 1(f) is changed from the previous year. In the previous year, administrative expenses common to both the Corporation and CEDF were paid by CEDF, except for rent and utility costs which were paid by the Corporation. Common administrative expenses are now reviewed annually and allocated between the Corporation and CEDF on a proportionate basis as determined by officials of the Corporation and CEDF. The change in the accounting policy has been applied to the current and prior year's figures. The effect of the change is to increase the Corporation's net loss for the year and to reduce the subsidy to the Communities Economic Development Fund by \$80,000 in 1986 and \$90,000 in 1985.

Manitoba Development Corporation
Notes to the Financial Statements
for the year ended March 31, 1986

3. Recoverable from the Province of Manitoba:

	<u>1986</u>	<u>1985</u>
Costs or fees re:		
Flyer Industries Limited	\$ —	\$ 213,500
The Pas Forestry Complex (note 6(c))	204,815	25,930
Destination Manitoba (note 8)	12,346	22,808
Manitoba Interest Rate Relief Program (note 8)	17,251	13,355
	<u>\$ 234,412</u>	<u>\$ 275,593</u>

4. Recoveries from the Province of Manitoba:

Cost or fees re:		
Flyer Industries Limited	\$ —	\$ 213,500
Destination Manitoba (note 8)	56,199	98,888
Manitoba Interest Rate Relief Program (note 8)	84,916	13,355
	<u>\$ 141,115</u>	<u>\$ 325,743</u>

5. Lending Operations:

The Corporation's lending operations under Part I were suspended effective November 15, 1977 except that, since that date, on the direction of the Province of Manitoba, both Part I and Part II guarantee and loan commitments have been made. Guarantees and loan commitments outstanding are included in note 6.

6. Contingent Liabilities and Commitments:

(a) Contingent Liabilities:

- i) The Corporation has provided a guarantee to a financial institution to a maximum of \$20,500,000 with respect to Flyer Industries Limited bank loans (1985 — \$20,500,000). The Corporation has fully provided for the potential loss on default of the bank loans by Flyer Industries Limited. (See note 1(c)).
- ii) The Corporation has provided a \$1,000,000 performance guarantee to the Toronto Transit Commission regarding Flyer Industries Limited's contract to supply buses to the Commission (1985 — Nil).
- iii) The Corporation has provided guarantees under the Jobs Fund Loan Program as follows:

	<u>1986</u>	<u>1985</u>
Gravure Graphics Ltd. — bank guarantee	\$ 975,000	\$ 975,000
— line of credit	250,000	250,000
Rock Lake Oil Seeds (1985) Holding Company Ltd. — bank guarantee	2,250,000	—

(b) Commitments:

	<u>1986</u>	<u>1985</u>
Part I commitment — undisbursed balances of approved loan:		
Flyer Industries Limited	<u>\$3,000,000</u>	<u>\$5,430,520</u>
Part II Commitment — undisbursed balances of approved loans:		
Destination Manitoba	\$ 202,462	\$ 768,022
Tantalum Mining Corporation of Canada Limited	350,500	115,500
Jobs Fund Loan Program	4,189,651	926,227
	<u>\$4,742,613</u>	<u>\$1,809,749</u>

Manitoba Development Corporation
Notes to the Financial Statements
for the year ended March 31, 1986

(c) **The Pas Forestry Complex:**

In accordance with the terms of an agreement dated March 25, 1975, between Manfor Ltd., the Province of Manitoba and the Corporation, the Corporation has a continuing responsibility to press and defend all claims in connection with the affairs of the several companies comprising The Pas Forestry Complex. All costs incurred by the Corporation in respect of such claims will be reimbursed by the Province.

The Receiver's activities concerning The Pas Forestry Complex are substantially complete. A final settlement agreement was reached and funds, including interest, in the amount of \$3,002,219 were transferred through the Manitoba Development Corporation to the Province of Manitoba in May, 1986. Third party proceedings with respect to the settlement are continuing. The remaining funds in the Receiver's accounts will be transferred to the Province of Manitoba in the near future and the Receiver will apply to the courts to be discharged when the third party proceedings have been finalized.

(d) **Saunders Aircraft Corporation Limited:**

Saunders Aircraft Corporation Limited was placed in receivership by the Manitoba Development Corporation on May 20, 1976. The Manitoba Development Corporation has indemnified the Receiver-Manager for expenses, losses or damages incurred.

Funds realized from the receivership actions, less an estimated amount retained by the Receiver-Manager to cover future administrative costs, are remitted to the Province of Manitoba. Funds in excess of those required by the Receiver-Manager are payable to the Province.

The Receiver-Manager has advised the Manitoba Development Corporation that the final outstanding account has been realized by a court settlement in the amount of \$200,000 less legal fees. When this transaction is finalized, the Receiver-Manager will apply to the courts to be discharged.

(e) **Litigation:**

With the sale of Flyer Industries Limited on July 15, 1986 and the Corporation's indemnification to the purchaser, the Corporation assumes all of Flyer Industries Limited's lawsuits as at the date of sale and any lawsuits that may arise with respect to business dealings prior to the date of sale. At the date of sale the company was involved in certain claims and lawsuits. The outcome of these claims is not known at this time.

7. Administration of the Corporation:

- (a) The Manitoba Development Corporation provides the subsidy assistance required by the Communities Economic Development Fund to the extent of the Fund's excess of expenditure over revenue.
- (b) Included in other expenses in Exhibit B are expenditures of \$136,942 incurred by the Corporation, as the majority shareholder in Flyer Industries Limited, related to the development of corporate strategies, etc. for Flyer Industries Limited.

8. Activities Undertaken on the Initiative of the Province of Manitoba:

Part II of The Development Corporation Act authorizes the Corporation to undertake activities at the direction of the Province. Such activities include:

- (a) Assistance to corporations under the general authority of Part II of The Development Corporation Act.
- (b) Acting as the agent for the Province in administering portions of the Destination Manitoba Program in respect to:
 - i) providing loan assistance for capital projects related to the development and expansion of rural tourist facilities and
 - ii) acting as a conduit for the conditional grant aspect of the program which is funded through the Department of Business Development and Tourism.
- (c) Acting as the agent for the Province in providing loans and other assistance under the Jobs Fund Loan Program.
- (d) Monitoring the loan portfolio of The Manitoba Interest Rate Relief Program for Small Business.

Manitoba Development Corporation
Notes to the Financial Statements
for the year ended March 31, 1986

The Corporation is entitled to recover administrative costs for administering the Destination Manitoba Program and the Manitoba Interest Rate Relief Program for Small Business. The Corporation does not recover administration costs for its participation in the Jobs Fund Loan Program and for the assistance provided to Corporations, estimated at \$100,000 during the current fiscal period (1985 — \$100,000).

9. Jobs Fund Loan Program:

- (a) If borrowers default on conditions of the loans, then the loans become repayable in whole or in part and interest may be charged. All losses are the responsibility of the Province.
- (b) Interest on these loans is billed to and payable by the Department of Industry, Trade and Technology.

10. Destination Manitoba:

The first \$25,000 of a loan is non-interest bearing if companies adhere to conditions of the loan. The balance of the loan bears interest at one-half of the bank commercial prime rate adjusted quarterly; however, the rate charged will not exceed 7%.

11. Economic Dependence:

The Corporation is dependent on the Province of Manitoba for its continued operations.

12. Comparative Figures:

The 1985 figures have been restated where necessary to conform with the 1986 financial statement presentation.

13. Subsequent Event:

On July 15, 1986, the Manitoba Development Corporation entered into an agreement with BV Carrosseriefabrieken den Oudsten en Zonen for the sale of the shares of Flyer Industries Limited for the sum of \$1,000,000. As a result of this divestiture, the overall net cost to the Province of Manitoba is estimated to be in the range of \$96 - \$100 million. Approximately \$14 million will be paid directly by the Province with the remainder being processed through the Corporation. A net amount of approximately \$81 million of these costs had been disbursed as of September 30, 1986.

The Manitoba Development Corporation has also agreed to provide a Canadian charter bank with a guarantee as to the amount outstanding under a line of credit established by BV Carrosseriefabrieken den Oudsten en Zonen to a maximum of \$8,000,000. The guarantee shall be reduced by \$1,000,000 on each July 15 commencing July 15, 1988 until July 15, 1991 at which time the guarantee shall be reduced to zero.